

TRANSPORT CORPORATION OF INDIA

Rating: ◀▶ | Target price: ◀▶ | EPS: ◀▶

CMP
Rs. 715

Target Price
Rs. 855

Rating
BUY



ONE YEAR OUTLOOK

Business & Earnings ◀▶

- Maintain our positive stance on TRPC as it is expected to benefit from 1) strong automotive demand coupled with addition of new clientele driving 3PL growth (TCI Supply Chain (SCS)), 2) sustained thrust in demand for coastal shipping, 3) traction in multimodal logistics & 4) increasing contribution of less-than-truckload (LTL) in freight segment (margin-accretive).
- In 2QFY23, SCS segment's revenue grew 20% QoQ as automotive production ramped up sequentially. Expect recovery in automotive demand (~80% of revenues), multimodal opportunities (3 trains to carry finished vehicles) and cold chain opportunities to drive revenue & EBITDA CAGR of 23%/22% (FY22-24E).
- Seaways revenue declined 8% YoY due to dry docking of 3 ships and lower international volumes while EBITDA margins at 38.7% declined 200bps QoQ. We expect margins to hover at 33% in 2HFY23E and normalize to ~31% in FY24E factoring lower opportunistic volumes from Myanmar. Given sharp rise in ship procurement cost, we pencil in ship addition towards end of 2HFY23E. Expect Seaways segment's revenue and EBITDA CAGR of 24%/6% respectively (FY22-24E).
- Freight division is likely to benefit from 1) higher LTL contribution (40% by FY25 from 35% in 1HFY23), 2) shift from unorganised sector, and 3) growth in multimodal logistics. Expect revenue and EBITDA CAGR (FY22-24E) of 16%/24% respectively.

Valuation Multiples ◀▶

- Valuing TRPC based on SOTP (page 3) to arrive at TP of Rs.855 (rolling to Sept-24). Our multiple in Freight (6x EBEITDA) factors in increasing share of LTL (RoCE- accretive) and Seaways (10.5x EBEITDA) to witness strong growth and healthy margins. Despite capex (~Rs. 4.5bn through FY23-24) towards addition of ship, infrastructure and technology, RoCEs likely to sustain at 19% through FY24.

FINANCIAL SUMMARY

	Net Sales (Rs mn)	EBITDA (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY21	24,520	10.1	1,348	17.6	41	23	13
FY22	29,046	13.4	2,674	34.6	21	14	22
FY23E	35,359	11.3	2,649	34.3	21	14	19
FY24E	41,982	12.0	3,387	43.8	16	11	20
FY25E	45,834	11.9	3,724	48.2	15	10	19

THREE YEAR OUTLOOK

Business & Earnings ◀▶

- Expect TRPC to benefit from 1) shift in volumes from unorganised to organized sector, and 2) traction in multimodal logistics (TRPC is one of the few players with presence across value chain), which would drive revenue & EBITDA CAGR of 16%/14% respectively through FY22-26E.
- TRPC's established infrastructure, long-standing customer relationships and experienced management team (vintage of ~six decades) are expected to aid its position as a preferred 3PL partner. Furthermore, presence across multimodal logistics value chain (JV with Concor for rail transportation & fleet of ships for waterway transportation) allows the company to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is likely to drive coastal shipping volume growth, benefiting Seaways division. Expect addition of new ship every 15-18 months to cater to incremental demand. However, increasing competition may dilute realization and profitability.
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share in overall revenues to reduce from 47% in FY22 to ~40% by FY26E.

Valuation Multiples ◀▶

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~19% in FY26E). Based on FY26E estimates, we see a potential upside of 60% (incl. dividends).

KEY ESTIMATES REVISION

	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Sales	34,892	35,359	5%	41,541	41,982	1%
EBITDA (%)	12.4	11.3	-110 bps	12.6	12.0	-30 bps
PAT	2,854	2,649	-7%	3,444	3,387	-2%
EPS	36.9	34.3	-7%	44.6	43.8	-2%
Implied Target P/E	Before Results: 19.3			After Results: 19.5		

All figures in Rs.Mn

OUTLOOK REVIEW 2QFY23 01 November 2022

Industry LOGISTICS

Key Stock Data

Bloomberg	TRPC IN
Shares o/s	78mn
Market Cap	Rs. 55bn (\$669mn)
52-wk High-Low	Rs. 859-527
3m ADV	Rs. 115mn (\$1mn)
F&O	No

Latest Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoters	66.6	66.6	69.0
Institutions	14.9	15.1	0.0
Public	18.5	18.3	31.0
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1m	3m	12m
TRPC	-6.8	3.0	13.6
Sensex	5.8	4.5	1.0

RESEARCH ANALYSTS

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Quarterly Financial Statement

Consolidated Financial Results

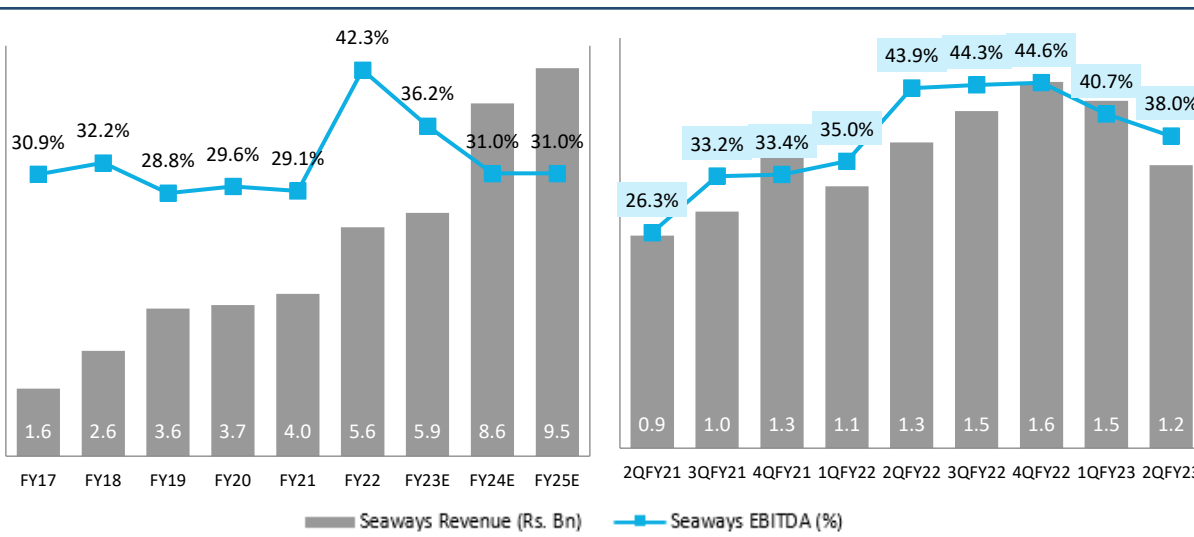
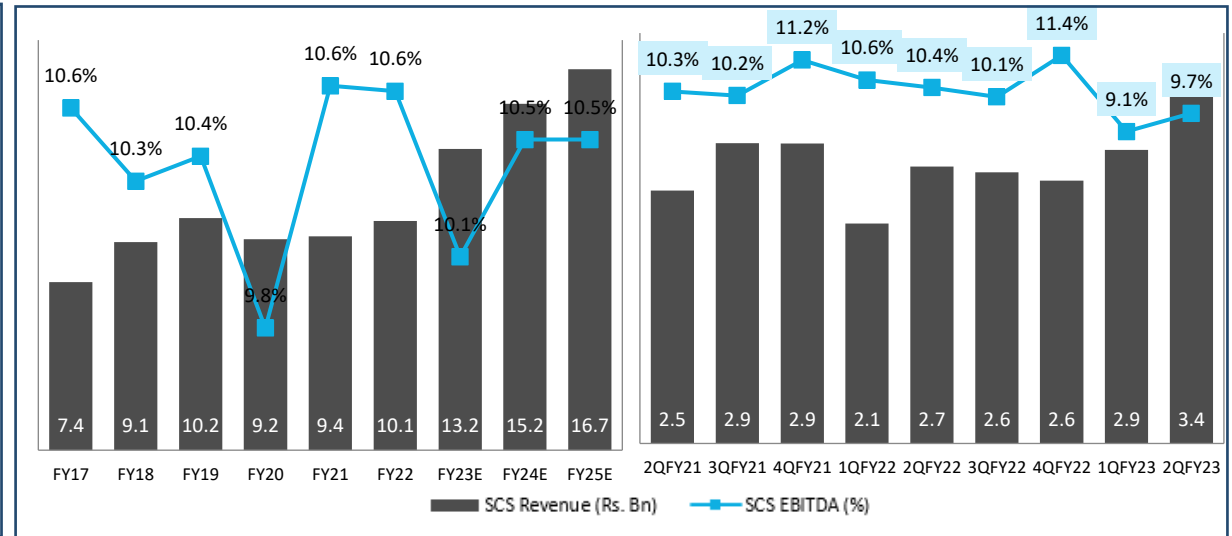
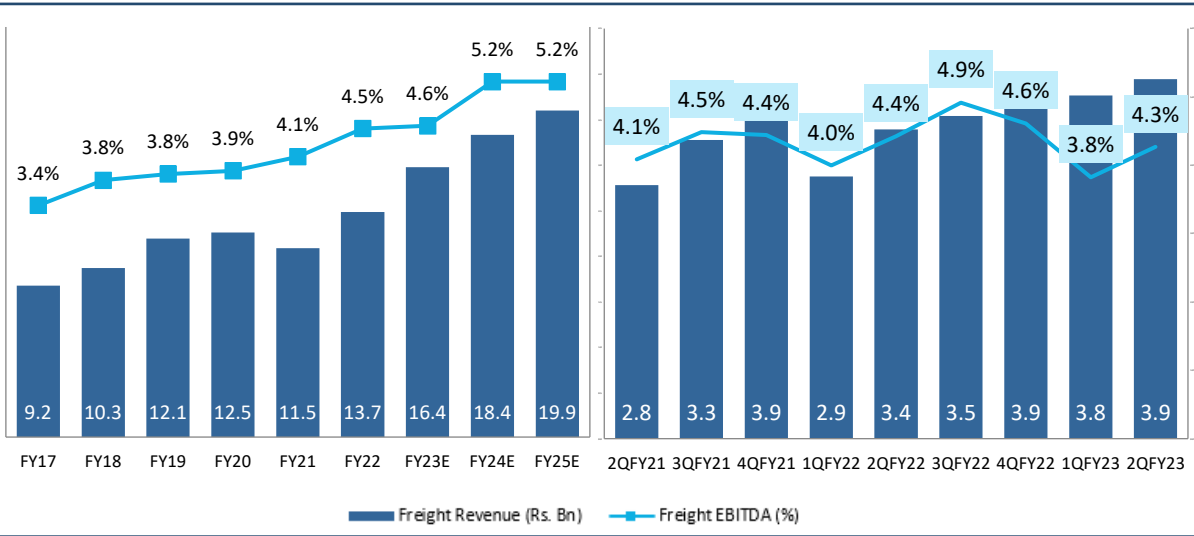
Rs. mn\Period	2QFY23	2QFY22	yoy Growth	1QFY23	qoq Growth	1HFY22	1HFY23	Yoy Growth
Revenue	8,509	7,365	15.5%	8,072	5.4%	24,520	13,473	16,581
Operating expense	6,799	5,730	18.7%	6,374	6.7%	19,738	10,565	13,173
Emp. cost	475	404	17.6%	453	4.9%	1,402	795	928
Other expenses	319	243	31.1%	254	25.5%	902	414	573
Total Expenditure	7,593	6,377	19.1%	7,080	7.2%	22,042	11,774	14,673
EBITDA	916	988	-7.3%	992	-7.6%	2,479	1,699	1,908
Margin %	10.8%	13.4%	-265 bps	12.3%	-152 bps	10.1%	12.6%	11.5%
D&A	289	242	19.6%	278	3.9%	881	475	568
EBIT	627	747	-16.0%	713	-12.1%	1,598	1,224	1,340
Other income	76	56	36.0%	159	-52.3%	352	163	235
Net Interest exp (inc)	21	28	-23.8%	19	12.8%	248	69	40
PBT	682	775	-12.0%	854	-20.2%	1,562	1,318	1,536
Tax provision	108	91	18.0%	88	22.7%	214	151	195
Tax rate %	15.8%	11.8%	34.1%	10.3%	551 bps	13.7%	11.4%	12.7%
PAT (Reported)	574	684	-16.0%	766	-25.1%	1,348	1,167	1,340
PAT (Adjusted)	574	684	-16.0%	766	-25.1%	1,452	1,167	1,340
Adjusted PAT Margin %	6.7%	9.3%	-253 bps	9.5%	-275 bps	5.9%	8.7%	8.1%
Shares Outstanding	77	77		77		77	77	77
EPS (Reported)	7.4	8.8	-16.0%	10.0	-25.8%	17.6	15.1	17.3
EPS (Adjusted)	7.4	8.8	-16.0%	10.0	-25.8%	19.0	15.1	17.3

- TRPC's freight segment reported revenues of Rs. 3.9bn, up 16% YoY and 5% QoQ. The segment's EBIT margins at 4.0%, were up 45bps sequentially

- Supply Chain segment reported revenues at Rs. 3.4bn, up 27% YoY and 20% QoQ. EBIT margins at 6.4%, were up 100bps sequentially.

- Seaways segment revenues at Rs. 1.2bn, were down 8% YoY and 19% QoQ due to dry docking of 3 ships and lower international volumes. EBIT margins at 24.5% declined 1,125bps YoY.

Healthy growth in Seaways segment to be driven by ship addition in 2HFY23E; SCS segment to benefit from automotive demand recovery



SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		5,977	6x Sept-24e EV/EBITDA
TCI SCS		23,366	14x Sept-24e EV/EBITDA
TCI Seaways		29,368	10.5x Sept-24e EV/EBITDA
Others		75	2x Sept-24e EV/EBITDA
Net Cash(Net Debt)		1,464	
Value from TCI	779	60,251	91% of Total
Value from JV	77	5,983	9% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	855	66,234	

Financial Summary

Standalone Financial Statements

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Profit & Loss										
Revenue	18,042	21,778	25,583	25,134	24,520	29,046	35,359	41,982	45,834	51,933
Gross profit	3,502	4,288	4,888	4,864	4,782	6,498	7,717	9,246	10,187	11,646
EBITDA	1,575	2,083	2,442	2,335	2,479	3,904	4,013	5,039	5,476	6,545
Depreciation	578	673	752	777	881	1,076	1,153	1,288	1,425	1,578
EBIT	996	1,410	1,690	1,558	1,598	2,829	2,860	3,751	4,051	4,967
Other Income	177	245	269	283	352	311	331	372	462	587
Interest expense	286	299	356	324	248	109	79	42	26	17
Exceptional items	0	40	0	99	140	0	0	0	0	0
PBT	888	1,316	1,603	1,419	1,562	3,031	3,112	4,081	4,486	5,536
Reported PAT (after minority interest)	703	1,037	1,276	1,264	1,348	2,674	2,649	3,387	3,724	4,595
Adj PAT	703	1,037	1,276	1,264	1,348	2,674	2,649	3,387	3,724	4,595
EPS (Rs.)	9.2	13.5	16.7	16.5	17.6	34.6	34.3	43.8	48.2	59.4
Balance Sheet										
Net Worth	5,809	6,769	8,370	9,500	10,804	13,131	15,432	18,394	21,692	25,862
Total debt	4,066	4,238	4,496	4,083	2,735	765	973	771	570	554
Other liabilities and provisions	318	535	1,290	1,263	1,375	1,491	1,762	2,046	2,211	2,473
Total Networth and liabilities	10,584	11,985	14,546	15,109	15,177	15,634	18,414	21,458	24,720	29,136
Gross Fixed assets	8,761	10,345	11,917	13,159	14,305	15,382	18,532	19,922	22,612	24,502
Net fixed assets	5,325	6,236	7,055	7,521	7,786	7,787	9,784	9,886	11,151	11,463
Capital work-in-progress	568	563	40	216	52	73	73	73	73	73
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	298	313	938	888	858	998	998	998	998	998
Cash and bank balances	184	130	122	178	308	581	17	1,547	2,722	5,525
Loans & advances and other assets	1,601	1,604	2,221	2,324	2,223	2,237	2,723	3,233	3,529	3,999
Net working capital	2,608	3,139	4,170	3,982	3,951	3,959	4,819	5,722	6,247	7,078
Total assets	10,584	11,985	14,546	15,109	15,177	15,634	18,414	21,458	24,720	29,136
Capital Employed	10,266	11,450	13,256	13,846	13,802	14,142	16,652	19,412	22,509	26,663
Invested Capital (CE - cash - CWIP)	9,514	10,757	13,094	13,452	13,442	13,489	16,562	17,792	19,714	21,065
Net debt	3,882	4,109	4,375	3,905	2,427	184	956	-776	-2,152	-4,971
Cash Flow										
Cash flows from Operations (Pre-tax)	1,115	2,119	2,060	2,748	2,976	3,993	3,189	4,240	5,255	6,075
Cash flows from Operations (post-tax)	883	1,768	1,729	2,353	3,043	3,556	2,726	3,546	4,492	5,134
Capex	1,141	1,582	1,046	1,289	1,129	678	3,150	1,390	2,690	1,890
Free cashflows	-258	186	682	1,064	1,914	2,878	-424	2,156	1,802	3,244
Free cashflows (post interest costs)	-544	-113	327	741	1,667	2,769	-503	2,114	1,776	3,227
Cash flows from Investing	-1,174	-1,538	-1,481	-1,346	-959	-727	-3,150	-1,390	-2,690	-1,890
Cash flows from Financing	370	316	-255	-964	-1,941	-2,567	-139	-627	-627	-441
Total cash & liquid investments	184	130	122	178	308	581	17	1,547	2,722	5,525

Financial Summary

Standalone Financial Statements

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Key Variables										
Freight Segment Revenue	9,223.1	10,311.0	12,096.4	12,477.9	11,508.2	13,715.7	16,447.9	18,421.7	19,895.4	21,487.0
SCS Segment Revenue	7,374.4	9,125.5	10,189.0	9,249.5	9,376.4	10,051.9	13,214.3	15,196.4	16,716.1	18,387.7
Seaways Segment Revenue	1,639.3	2,564.2	3,593.4	3,677.4	3,952.8	5,577.8	5,926.1	8,592.8	9,452.1	12,287.7
Growth ratios (%)										
Revenue	-20.1	20.7	17.5	-1.8	-2.4	18.5	21.7	18.7	9.2	13.3
EBITDA	-13.6	32.3	17.2	-4.4	6.2	57.5	2.8	25.6	8.7	19.5
Adj PAT	-17.4	47.6	23.0	-1.0	6.6	98.4	-0.9	27.9	9.9	23.4
Margin ratios (%)										
Gross	19.4	19.7	19.1	19.4	19.5	22.4	21.8	22.0	22.2	22.4
EBITDA	8.7	9.6	9.5	9.3	10.1	13.4	11.3	12.0	11.9	12.6
Adj PAT	3.9	4.8	5.0	5.0	5.5	9.2	7.5	8.1	8.1	8.8
Performance ratios										
Pre-tax OCF/EBITDA (%)	71	102	84	118	120	102	79	84	96	93
OCF/IC (%)	9	16	13	17	23	26	16	20	23	24
RoE (%)	13	16	17	14	13	22	19	20	19	19
RoCE (%)	10	12	13	12	12	20	18	19	18	19
RoCE (Pre-tax) (%)	12	15	16	14	14	22	21	23	22	23
Fixed asset turnover (x)	2.2	2.3	2.3	2.0	1.8	2.0	2.1	2.2	2.2	2.2
Total asset turnover (x)	1.8	1.9	1.9	1.7	1.6	1.9	2.1	2.1	2.0	1.9
Financial stability ratios										
Net Debt to Equity (x)	0.7	0.6	0.5	0.4	0.2	0.0	0.1	-0.0	-0.1	-0.2
Net Debt to EBITDA (x)	2.5	2.0	1.8	1.7	1.0	0.0	0.2	-0.2	-0.4	-0.8
Interest cover (x)	3	6	5	7	12	33	35	84	171	294
Cash conversion days	53	53	59	58	59	50	50	50	50	50
Total Working capital days	79	71	73	73	71	59	60	60	60	60
Valuation metrics										
Fully Diluted Shares (mn)	76	77	77	77	77	77	77	77	77	77
Market cap (Rs.mn)						55,405				
P/E (x)	79	53	43	44	41	21	21	16	15	12
P/Sales (x)	3.1	2.5	2.2	2.2	2.3	1.9	1.6	1.3	1.2	1.1
EV (Rs.mn) (ex-CWIP)	59,286	59,513	59,779	59,309	57,832	55,589	56,360	54,629	53,252	50,433
EV/ EBITDA (x)	38	29	24	25	23	14	14	11	10	8
EV/ OCF(x)	67	34	35	25	19	16	21	15	12	10
FCF Yield (%)	-0.5	0.3	1.2	1.9	3.5	5.2	-0.8	3.9	3.3	5.9
Price to BV (x)	9.5	8.2	6.6	5.8	5.1	4.2	3.6	3.0	2.6	2.1
Dividend yield (%)	0.2	0.3	0.3	0.3	0.2	0.7	0.6	0.8	0.8	0.8
Dividend pay-out (%)	14	14	13	15	7	15	13	13	11	9

Crystal Ball Gazing

Over FY22-26E, revenue growth is likely to be driven by 1) shift from unorganised to organised sector, 2) logistics supply chain outsourcing to 3PL players, and 3) traction in multimodal logistics. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.

Healthy Revenue and EBITDA growth

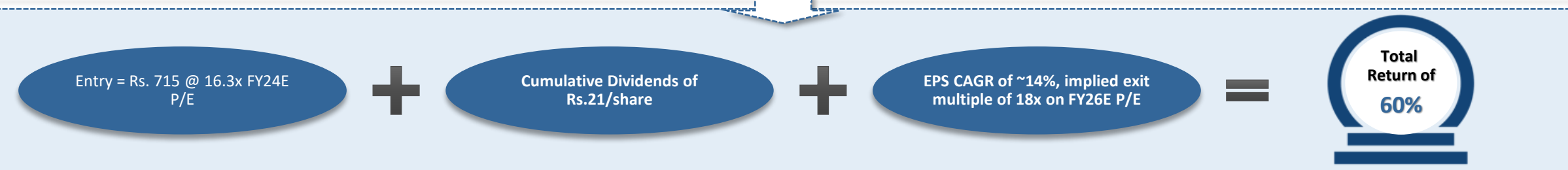
	FY11-FY14	FY14-FY22	FY22-FY26E
Revenues CAGR	5%	9%	16%
Gross Margin	19%	20%	22%
EBITDA CAGR	3%	18%	14%
EBITDA margin	7.6%	9.4%	12.3%
EPS CAGR	6%	27%	14%
Total Asset Turnover (x)	2.5	2.0	2.0
Total WC days	56	66	60
Pre-tax OCF/EBITDA (%)	87%	104%	91%
Post Tax OCF as a % of IC	15%	18%	22%
Debt/EBITDA	2.1	2.5	(0.2)

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY22	FY22-FY26E
RoE (%)	15.2%	15.9%	19.8%
RoCE (%)	10.9%	12.6%	18.6%
RoIC (%)	15.6%	14.3%	21.6%
Average 1 yr fwd			
PE (x)	4.3	12.8	
EV/EBITDA (x)	4.4	9.1	
Peak 1 yr fwd			
PE (x)	6.8	19.2	
EV/EBITDA (x)	6.6	12.8	

Healthy operating performance to sustain multiple

SOTP	FY26 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	1,139	6.0	6,833
TCI SCS	1,923	13.0	25,004
TCI Seaways	3,809	11.0	41,901
Others	37	2.0	75
Net Debt (Rs.mn)			-4,971
Mkt Cap (Rs.mn)			78,784
Standalone TP			1,020
JV and Subs			
(Transystem, TCI Concor, Cold Chain)			82
Target Price			1,100

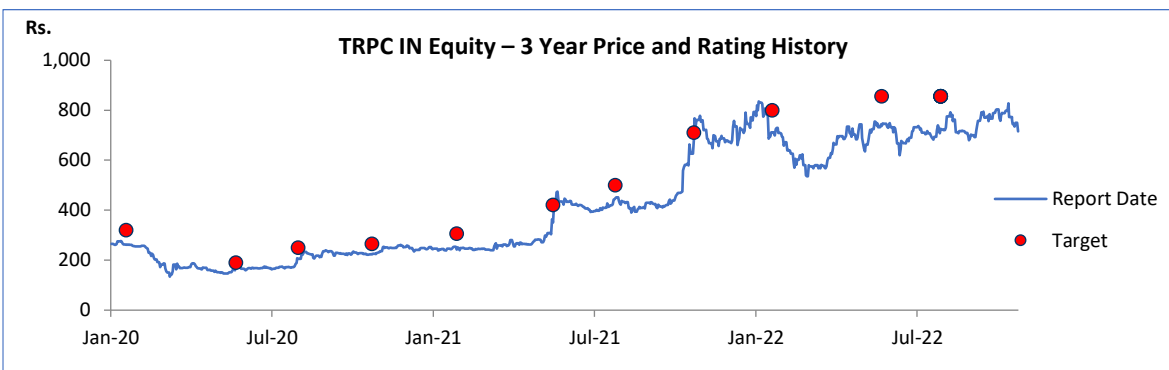


Source: Company data, Spark Capital Research

TRPC	Transport Corporation of India
AMR	Autonomous mobile robot
ASC	Automated sort capacity
3PL	<i>Third Party Logistics Service Provider</i>
BPS	Book Value per share
BS	Balance sheet
BV	Book Value
CAGR	Compounded Annual Growth Rate
CASA	Current Account + Savings Account
CC	Cash Credit
D2C	Direct to consumer
CG	Corporate Governance
CMP	Current Market Price
CV	Commercial Vehicle
DPS	Dividend per share
DTA	Deferred Tax Assets
DTL	Deferred Tax Liabilities
EPS	Earnings per share
FI	Financial Institution/Intermediary
JV	Joint Venture
LAP	Loan against Property
LC	Letter of Credit
LCV	Light Commercial Vehicle
LoU	Letter of Undertaking
MHCV	Medium & Heavy Commercial Vehicle
MSE	Micro & Small Enterprises
MSME	Micro, Small & Medium Enterprises
MTM	Marked-to-Market
OI	Other Income
Opex	Operating Expenses
P&L	Profit & Loss
P/BV	Price to Book Value
P/E	Price to Earnings
PAT	Profit After Tax
PBT	Profit Before Tax
PTL	Part truck load

RoE	Return on Equity
RoCE	Return on Capital Employed
SaaS	Software as a service
SCV	Small Commercial Vehicle
SCS	Supply chain services
SEBI	Securities & Exchange Board of India
SLA	Service level agreement
SME	Small & Medium Enterprises
SOTP	Sum of the Parts
TP	Target Price
UAV	Unmanned aerial vehicle
UV	Utility Vehicle
WMS	Warehouse management system

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
05-Aug-22	707	855	BUY
31-May-22	744	855	BUY
28-Jan-22	724	800	BUY
01-Nov-21	630	710	BUY
05-Aug-21	446	500	BUY
27-May-21	367	420	Buy
08-Feb-21	257	305	Buy
05-Nov-20	226	265	Buy
14-Aug-20	210	250	Buy
05-Jun-20	159	190	Buy
03-Feb-20	266	320	Buy
07-Nov-19	289	340	Buy
02-Aug-19	260	310	Buy
29-May-19	315	360	Buy
15-Feb-19	279	365	Buy

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